

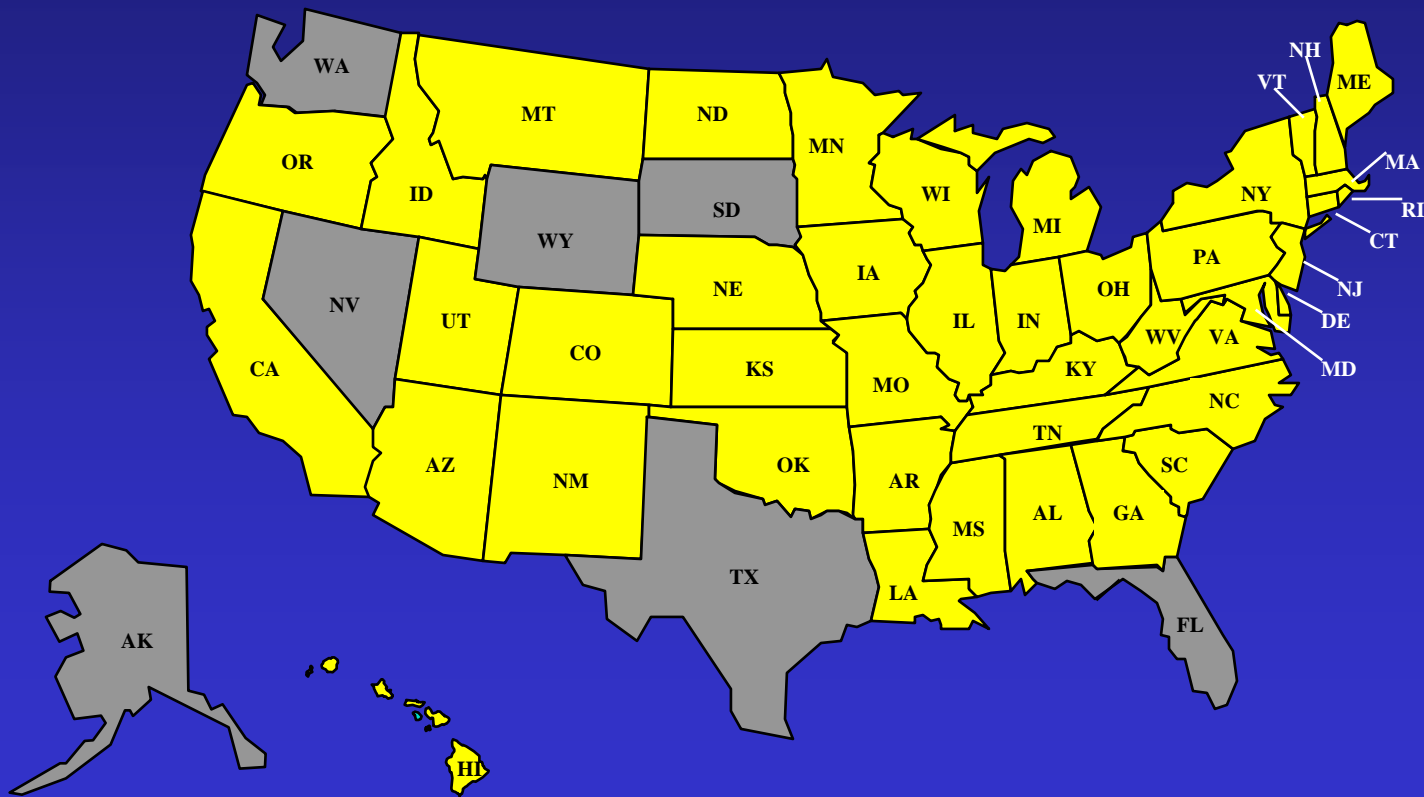
# **Washington's Tax System**

**Presented at Governor's Economic & Workforce Development  
Conference, September 7, 2006**

# **Summary of Washington's Tax Advantages**

- **No Personal Income Tax**
- **No Tax on Intangibles**
- **No Capital Gains Tax**
- **B&O Tax Has Low Flat Rates & Easy to Calculate**
- **Average Property Taxes with Protections for Business**
- **Many Tax Incentives**

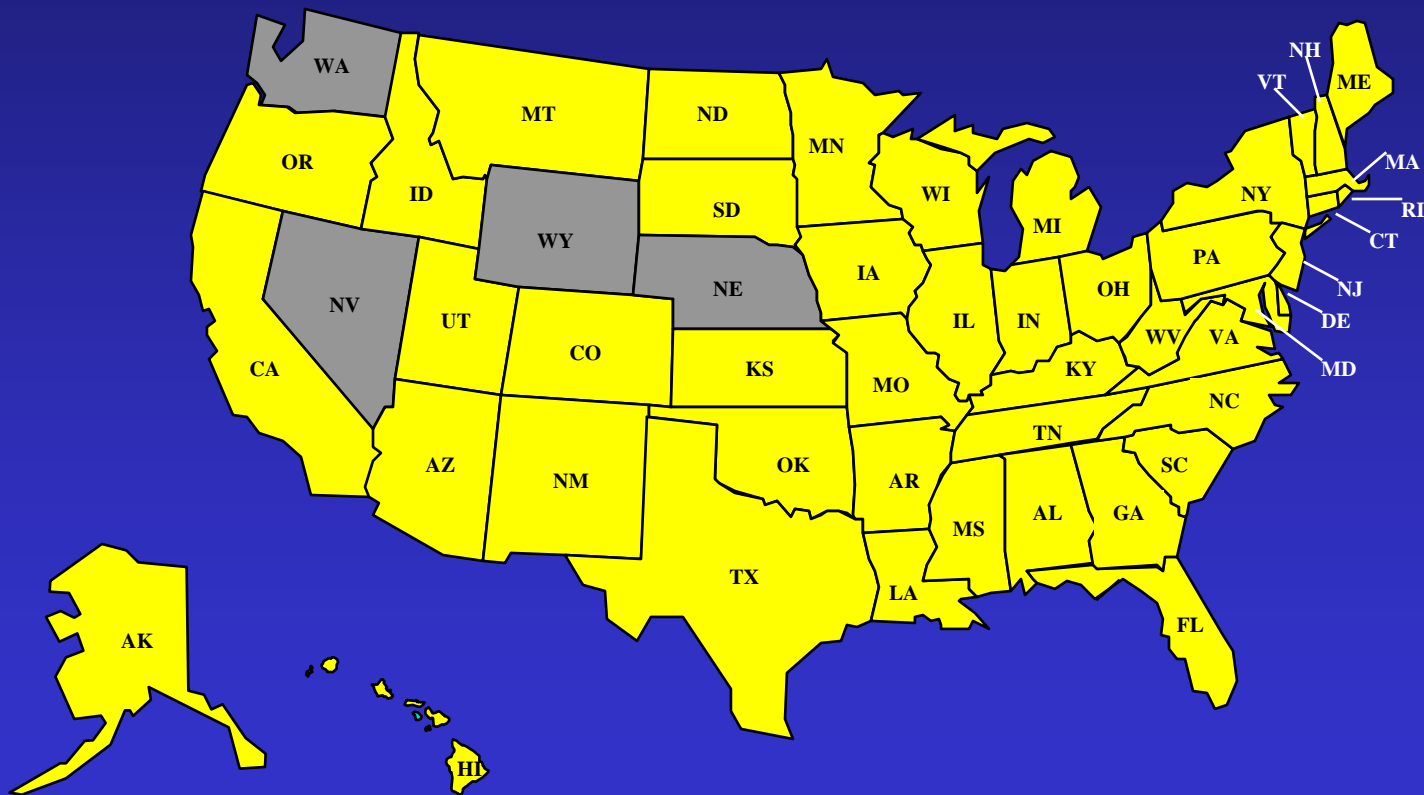
# Personal Income Taxes are imposed in 43 states



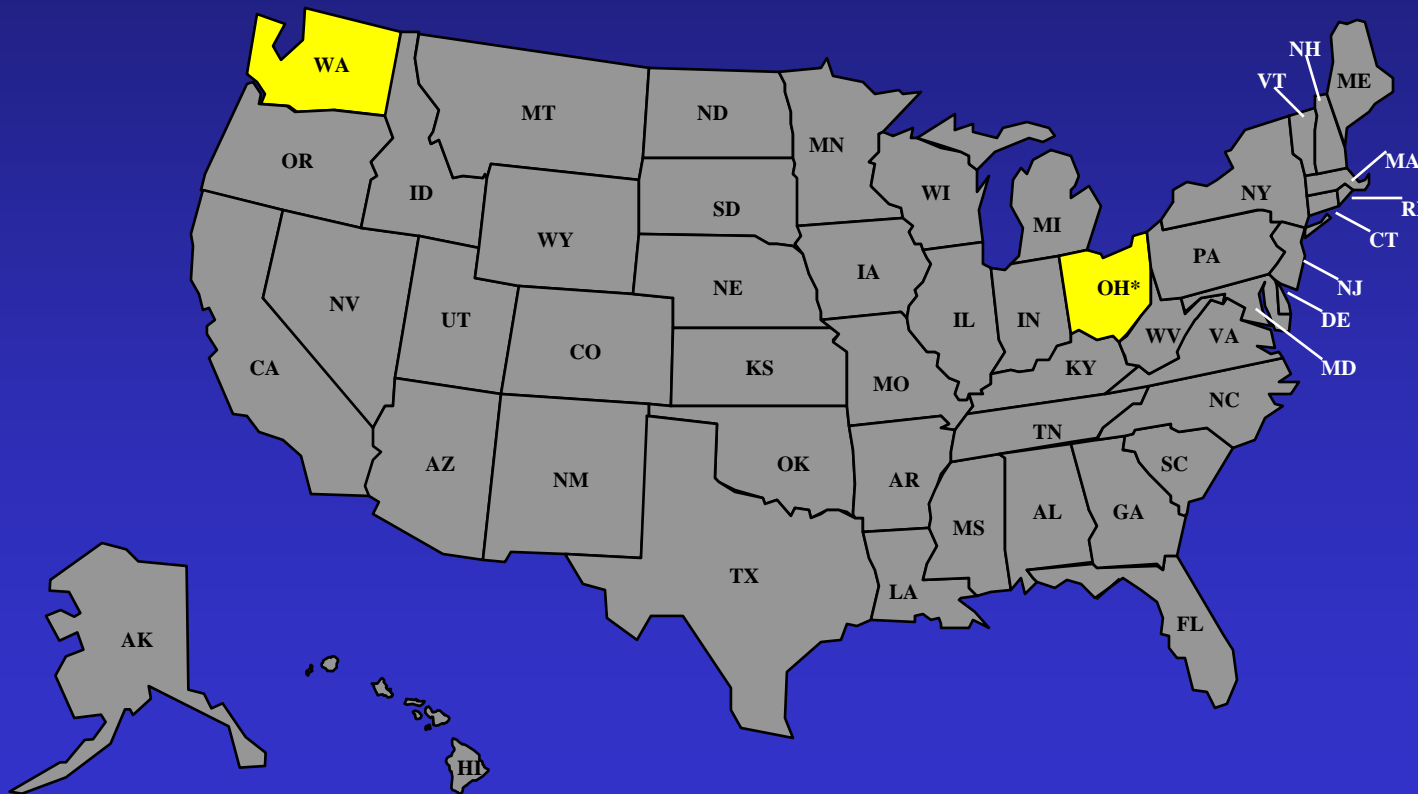
# **Washington Has No Personal Income Tax**

- **Reduces the administrative costs associated with employees**
- **Reduces the cost of labor since employees pay no income taxes**
- **Substantial benefit for entrepreneurs running their own business and highly compensated executives**
- **No double taxation of business income (via corporate and personal income taxes)**

# Corporate Income Taxes are imposed in 46 states



# Washington is One of Two States with a Gross Receipts (Business and Occupation) Tax



## **Business and Occupation Tax**

- **B&O tax is broad-based with low flat rates, which can be a great benefit for firms with high profit margins**
- **B&O rate for most activities is just under one half of one percent**
- **Flat rate is easy to calculate**
- **Rate of many service businesses is higher, 1.5%, but there is no sales tax charged**
- **More beneficial system to established firms than start-ups.**

# **Business and Occupation Tax**

- **B&O tax is not a unitary tax.**
- **B&O tax only taxes activities that occur within Washington.**
- **B&O tax compared to corporate income tax is more beneficial to businesses with large profit margins and WA headquartered business not engaged in service activities.**
- **B&O tax compared to corporate income tax is less beneficial to businesses with small profit margins and start-ups.**



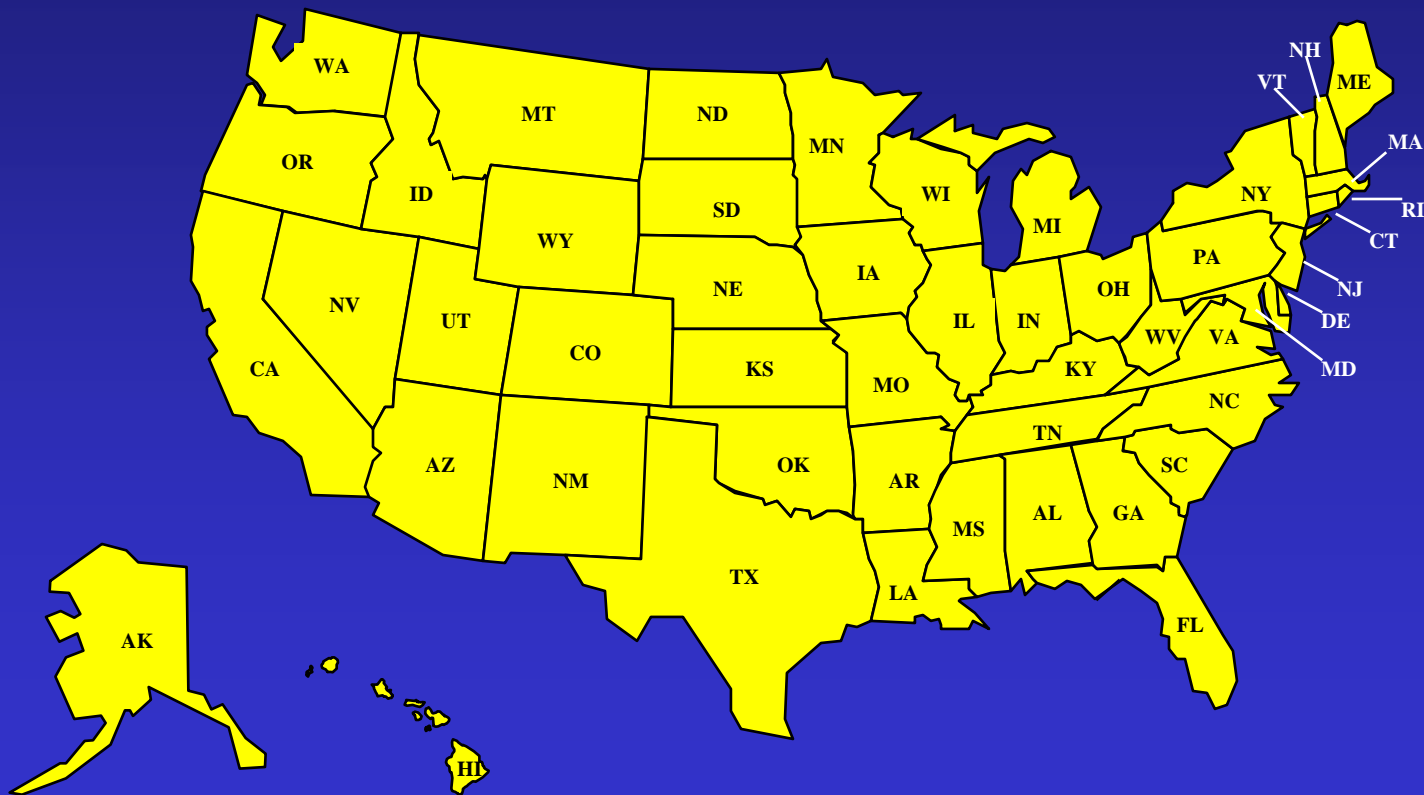
# **Washington does not tax intangibles such as financial assets**

- Thus there is generally no tax on income from stocks, bonds, or investment portfolios

## **Washington has no capital gains tax**

- Substantial benefits for investors and retirees
- No capital gains tax and no tax on financial assets together reduce the costs of raising capital in Washington

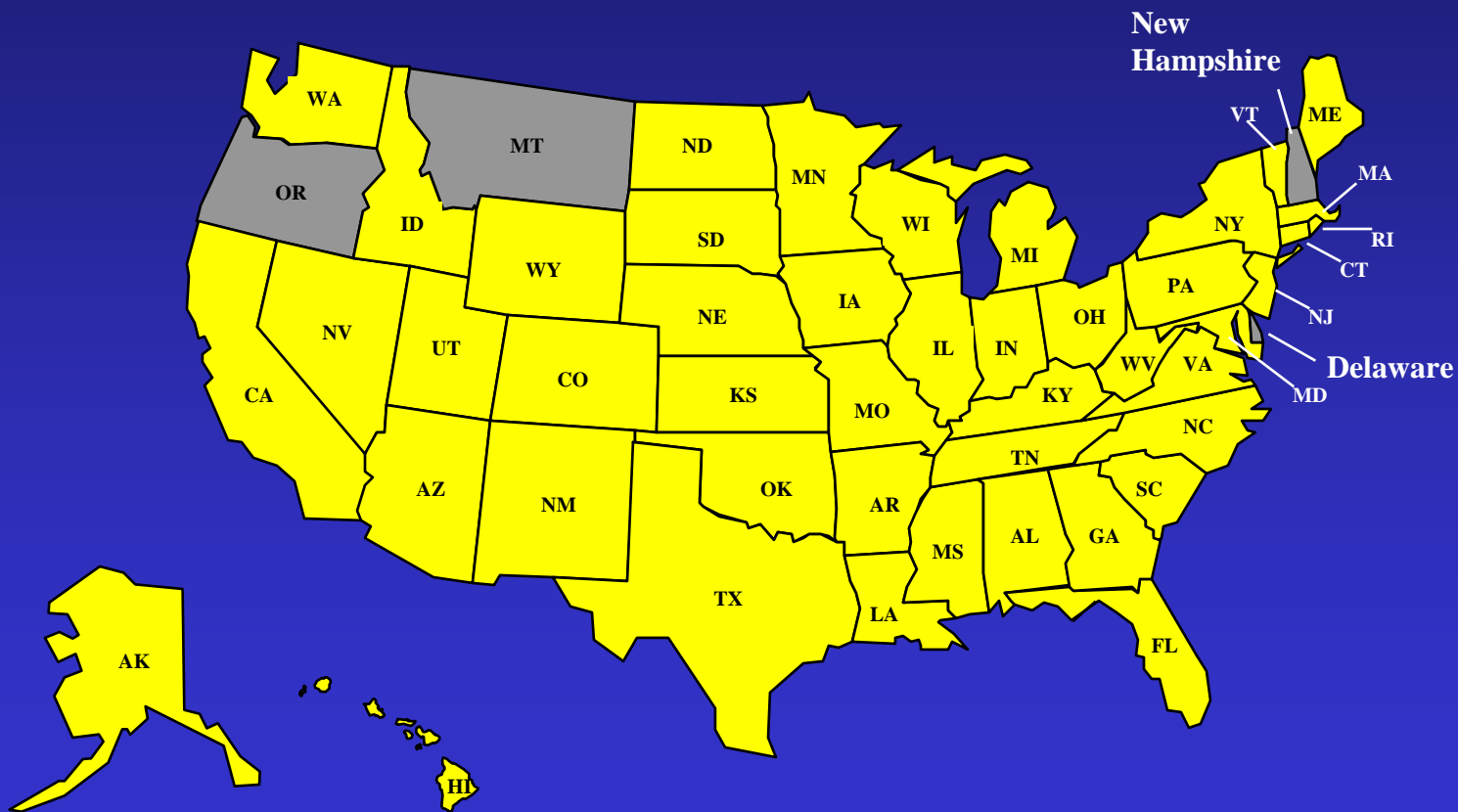
# Property Taxes are imposed in all 50 states



# Property Tax

- Property tax rates are moderate, predictable, and are near the national average.
- Tax imposed on assessed value, which is approximation of fair market value
- Washington has various property tax limitations result in rates that are generally declining
  - Constitutional limit of 1% of property value
  - Constitutional requirement that all property be taxed uniformly. Businesses and residential property are taxed the same.
  - Statutory limit of 1% growth in property tax levies

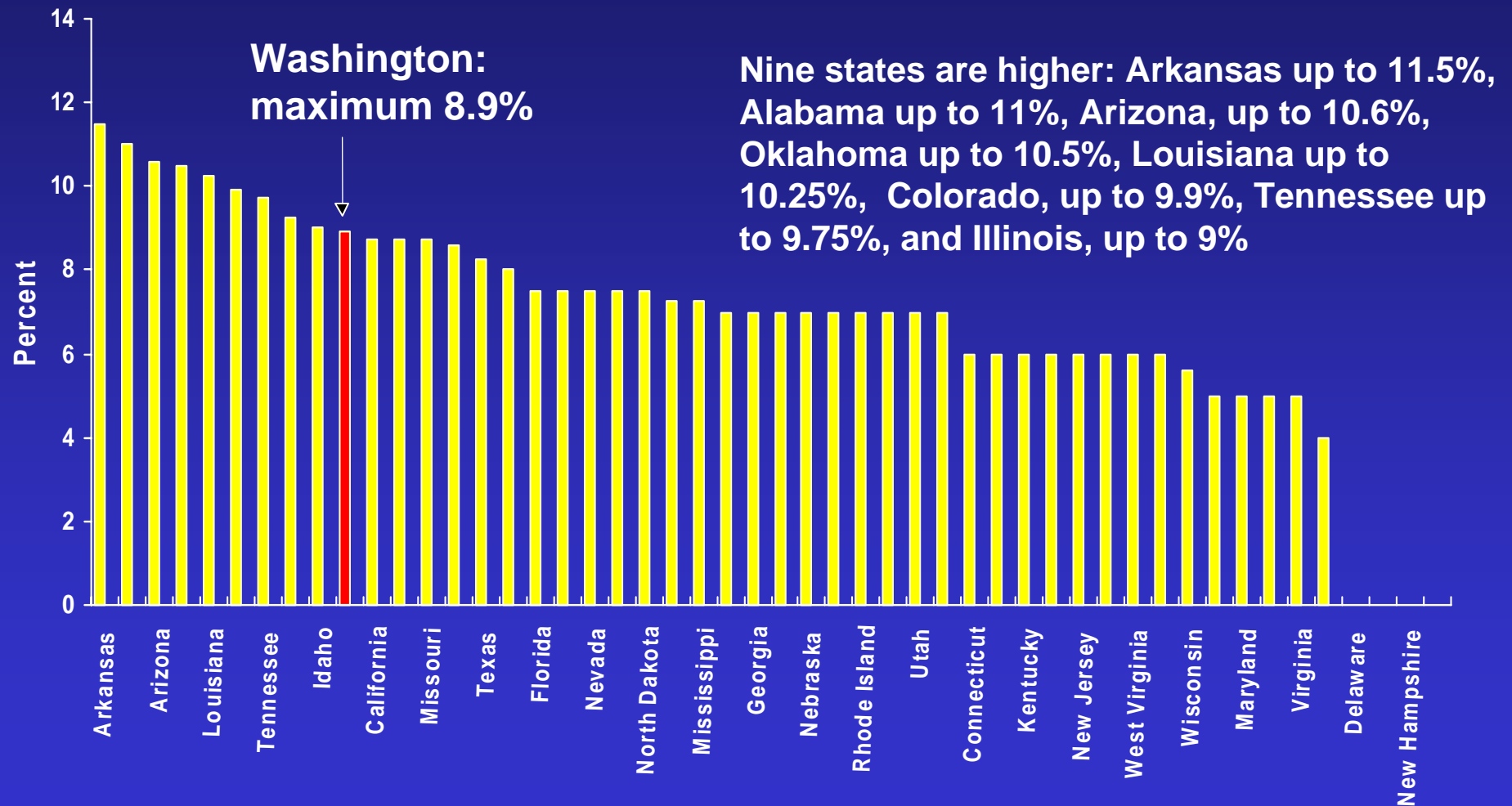
# Sales Taxes are imposed in 46 states



## Retail Sales & Use Tax

- Applies to purchases of tangible personal property and some services, including construction labor
- Tax Rate (varies according to location):
  - State: 6.5% (no change since 1983)
  - Local: 0.5% - 2.4% (average of 1.9%)
  - Maximum: 8.9% (Lynnwood)
- Most of Puget Sound area 8.4%-8.8%

# Maximum Combined State and Local Sales Tax Rates Among Highest in Nation



Source: Comparative State and Local Taxes, 2000

# Types of Tax Incentives

- Exemptions
- Preferential B&O Tax Rates
- B&O Tax Credits
- Sales/Use Tax Deferrals & Waivers

***Washington's tax incentives generally focus on B&O tax and sales tax because these taxes impose the greatest burden on business***

# Types of Tax Incentives

- Incentives by Industry
- Tax Incentives by Activity
- Tax Incentives by Location

*Or a combination of  
one or more of these elements*



# **B&O Tax Exemptions and Preferential Rates**

<u>Rate</u>	<u>Activity</u>
Exempt	Fresh Fruit & Vegetable Manufacturing
Exempt	Dairy Products Manufacturing
Exempt	Seafood Product Manufacturing
Exempt	Investment Income by Non-financial Firms
Exempt	Interest Income on First Mortgages
Exempt	Sales of Real Estate
.00138%	Reselling Prescription Drugs
.00138%	Processing/Wholesaling Perishable Meat Products

## Preferential Rates Continued

<u>Rate</u>	<u>Activity</u>
.00138	Processing Dried Peas
.00138	Manufacturing flour & oil
.00138	Manufacturing Biofuel
.00275	International Freight Brokers, Stevedoring
.00275	Travel Agent Commissions
.00275	International Management Services
.002904	Manufacturing Aluminum
.002904	Commercial Aircraft Repair & Maintenance
.002904	Manufacturing Solar Energy Systems

## **Preferential Rates Continued**

- .004235\***      **Manufacturing & Selling Commercial  
Airplanes & Component Parts.**
- .004235\***      **Forest & Timber Products Industry**
- .00484**        **Child Care, Insurance Agent Commissions,  
Radio & TV Broadcasting, Royalties,  
Warehousing (Instead of .015)**

## **PENDING PREFERENTIAL RATES**

- .00275**        **Manufacturing Semiconductor Materials**
- .002904**      **Manufacturing & Selling Commercial  
Airplanes & Component Parts**
- .002904**      **Forest & Timber Products Industry**

## Tax Incentives

- Manufacturing\*
- Aerospace
- High Tech
- Biomedical
- Food Processors
- Clean Energy
- Forest Products
- Miscellaneous

\* “Manufacturing” also includes R&D facilities, commercial testing laboratories, computer programming & the production of computer software

# **Tax Incentives by Industry: Manufacturing\***

- **Sales/Use Tax Exemption for Machinery and Equipment Used Directly in the Manufacturing Operation (The “M&E Exemption”)**
  - **Sales/Use Tax Deferral/Waiver for Construction of Facilities and Purchase of Equipment for Manufacturing Operations in Rural Counties & Counties with CEZs.**
  - **B&O Tax Credit for New Jobs in Rural Counties/CEZs**
- \* Includes R&D facilities, commercial testing laboratories, computer programming and the production of computer software**

# **Tax Incentives by Industry:**

## **Aerospace**

In addition to general manufacturing incentives:

- **Preferential B&O rate for aerospace product (airplanes and their components) manufacturing and wholesale sales of products (.004235 instead of .00484, and reduce to .002904 by July 1, 2007)**
- **Preferential B&O rate for FAR Part 145 Repair Stations (.00275 instead of .00471)**
- **B&O credit for property taxes paid on aerospace product manufacturing facilities**
- **B&O credit for preproduction development costs for anyone engaged in aerospace design, development, and engineering of aerospace products**
- **Sales/use tax exemption for computers and software for anyone engaged in aerospace design, development, and engineering of aerospace products**

# **Tax Incentives by Industry: High Technology**

**In addition to general manufacturing incentives:**

- **B&O tax credit for qualifying research and development activities (advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology)**
- **Statewide sales/use tax deferral/waiver for construction of facilities and acquisition of equipment used in qualifying research and development operations**
- **B&O credits for software development and help-desk services in rural areas**
- **Preferential rate for income from royalties and licenses**

# **Tax Incentives by Industry: Clean Energy (Manufacturing)**

In addition to general manufacturing incentives:

- **Preferential B&O rate for manufacturers of biodiesel fuel, biodiesel feedstock, alcohol fuel, and wood biomass fuel (.00138 instead of .00484)**
- **Preferential B&O rate for manufacturers of solar energy systems using photovoltaic modules or silicon components of these systems (.002904 instead of .00484)**
- **Statewide sales/use tax deferral/waiver for construction of facilities and acquisition of equipment used in manufacturing operations of biodiesel fuel, biodiesel feedstock, alcohol fuel, and wood biomass fuel**



## **Tax Incentives by Industry: Clean Energy (Distribution & Retail)**

- **Sales/use tax exemption for construction of facilities and acquisition of equipment used directly in the retail sale of such fuels**
- **Sales/use tax exemption for purchase of fuel delivery vehicles and labor/services charges related to such vehicles provided that 75% of fuel distributed is biodiesel fuel, wood biomass fuel, or alcohol fuels**
- **B&O tax deduction for Income received from the distribution or retail sale of biodiesel fuel, wood biomass fuel, or alcohol fuels**

# **Tax Incentives by Industry: BioTech**

**In addition to all High Technology tax incentives:**

- **Statewide sales/use tax deferral/waiver for construction of facilities and acquisition of equipment used for biotechnology product or medical device manufacturing**

# Tax Incentives by Industry:

## Food Processing

- (B&O) tax exemption for income from:
  - Canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables or to wholesale sales by the persons performing these activities;
  - Manufacturing seafood products when the seafood products remain in a raw, frozen, or raw salted state at the end of the manufacturing process; or
  - Manufacturing dairy products, *when the sales are to purchasers who transport the goods out of this state in the ordinary course of business*
- Results in tax only be due on in-state sales

# **Tax Incentives by Industry: Food Processing**

**In addition to general manufacturing incentives:**

- **Statewide sales/use tax deferral/waiver for construction of facilities and acquisition of equipment used in:**
  - **Canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables**
  - **Manufacturing seafood products when the products remain in a raw, frozen, or raw salted state after manufacturing; or**
  - **Manufacturing dairy products**
- **Rebate of all state sales tax paid on construction of cold storage warehouses with square footage of 25,000 or more and purchases of material-handling equipment and racking equipment**

# **Tax Incentives by Industry: Forest Products**

In addition to general manufacturing incentives:

- **Preferential B&O rate (.004235 instead of .00484, and will drop to .002904 by July 1, 2007). Applies to:**
  - **Extracting timber or extracting timber for-hire;**
  - **Manufacturing or processing timber into timber products or wood products;**
  - **Manufacturing or processing timber products into other timber products or wood products;**
  - **Selling at wholesale:**
    - **timber extracted by the seller;**
    - **timber products manufactured by the seller from timber or other timber products; and**
    - **wood products manufactured by the seller from timber or timber products.**

# **Tax Incentives by Activity**

## **Miscellaneous**

- **Rebate of 100% of state sales tax paid on the of a third-party warehouses with square footage of 200,000 or more and 50% of state sales tax paid on purchases of material-handling equipment and racking equipment**
- **B&O tax credit for half of the amount repaid for customized employment training through community and technical colleges. Participating employers are required to increase their employment in this state by a minimum of 75 percent of the number of employees enrolled in the training program.**

# Where to Get Help

- DOR Tax Incentive Page at:  
<http://dor.wa.gov/content/taxes/incentives/default.aspx>
- Gary Grossman, Department of Revenue,  
360-705-6646  
[garyg@dor.wa.gov](mailto:garyg@dor.wa.gov)
- XXX, Department of Community, Trade & Economic Development,